

Message Text

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ACTION EA-09

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R 180834Z MAR 77
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 4144
INFO USLO PEKING
AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
AMEMBASSY MOSCOW
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AMEMBASSY ROME
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CINCPAC FOR POLAD

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1. SUMMARY OF ACTIVITIES DURING THE REPORTING PERIOD

CHINESE TRADE ACTIVITY WAS HIGHLIGHTED WITH THE
SIGNING OF A LONG-TERM AGREEMENT AND 1977
TRADE PROTOCOL WITH NORTH KOREA IN PEKING MARCH 12.
NO DETAILS WERE DISCLOSED. PRC-NORTH KOREAN TRADE,
WHICH WAS SCHEDULED TO REACH \$394 MILLION IN 1976,
IS LIKELY TO INCREASE AS THE PRC SEEKS TO MAINTAIN
ITS TRADING POSITION IN NORTH KOREA VIS-A-VIS THE
SOVIET UNION (HK 2945). OTHER TRADE-RELATED
ACTIVITY APPEARED TO GAIN MOMENTUM IN EARLY MARCH
AS NUMEROUS FOREIGN BUSINESS AND TRADE GROUPS
VISITED PEKING AND AT LEAST ONE OFFICIAL PRC TRADE
DELEGATION DEPARTED FOR CANADA. IN HONG KONG THE
PRC IS MAKING UNPRECEDENTED TRADE PROMOTION EFFORTS
IN A CLEAR ATTEMPT TO TAKE QUICK ADVANTAGE OF AN
EASILY ACCESSIBLE MARKET (ITEM 2). WHILE A HEALTHY
FLOW OF US. TRADERS VISITED PEKING (PEKING 373),
SINO-US TRADE STATISTICS FOR JANUARY CONTINUED
THE TREND ESTABLISHED IN THE LAST HALF OF 1976 WITH
MINISCULE US EXPORTS \$3.4 MILLION, BEING OVER-
SHADOWED BY IMPORTS FROM THE PRC, \$15.9 MILLION.
ALTHOUGH PRELIMINARY ESTIMATES OF PRC TRADE OFFICIAL
HAS CONFIRMED THAT SURPLUS ON CURRENT ACCOUNT
WAS ACHIEVED (PEKING 506). THE FIRST SINCE 1972.
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CONTINUING SEVERE WEATHER IS DIMMING PROSPECTS
FOR THIS YEAR'S GRAIN HARVEST RAISING THE
POSSIBILITY THAT PRC GRAIN IMPORTS IN 1977- ALREADY
MORE THAN DOUBLE LAST YEAR'S TOTAL-COULD RISE
STILL FURTHER. A NATIONAL CONFERENCE ON RAILWAY
SECURITY HAS UNDERLINED THE GOVERNMENT'S CONTINUING
CONCERN ABOUT BRINGING ORDER TO THE RAILWAYS.
OTHER THEMES PROMINENT IN PROVINCIAL AND NATIONAL
DURING EARLY MARCH CENTERED ON LEADERSHIP ATTEMPTS
TO FOSTER WIDER APPRECIATION OF THE IMPORTANCE
OF TACHING AS THE COUNTRY'S MODEL FOR INDUSTRY.
TACHING'S MESSAGE IS CLEARLY BASED ON BETTER
MANAGEMENT AND CLOSE PARTY INVOLVEMENT IN OPERATIONS
(ITEM 3). LIMITED OFFICIAL USE

2. UNPRECEDENTED TRADE PROMOTION IN HONG KONG

UNPRECEDENTED PRC STEPS IN MARKETING IN HONG KONG
INDICATE BOTH PEKING'S CURRENT TRADE ORIENTATION

AND ITS NEED TO STEP UP EARNINGS QUICKLY. AN EXHIBITION OF CHINESE JEWELRY AND HANDICRAFTS BEING HELD IN KOLOWWN'S CHINA EXPORT COMMODITY EXHIBITION HALL IS PROVIDING A CONVENIENT LOCATIONS FOR THIS STEPPED-UP MARKETING EFFORT. SPECIAL FACILITIES HAVE BEEN ESTABLISHED AT THE EXHIBITION FOR THE NEGOTIATION OF EXPORT AND WHOLESALE BUSINESS WITH COMMERCIAL OFFICALS FROM PEKING, SHANGHAI, FUKIEN, DARIEN AND KWANGTUNG (ASSUMABLY THE OFFICIALS REPRESENT PRC EXPORTS CORPORATIONS IN THESE PLACES).

PEKING ALSO APPEARS TO BE STEPPING UP ADVERTISING IN HONG KONG. IN MARCH THE PRC-CONTROLLED WEN WEI PAO AND TA KUNG PAO, FOR THE FIRST TIME EVER, FRONT-PAGED FULL PAGE ADVERTISING FOR PRC PRODUCTS. ON MARCH 12, THE PRC'S FOREIGN TRADE CORPORATION INVITED THE BUSINESS WORLD TO THE SPRING LIMITED OFFICIAL USE

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CANTON FAIR IN JOINT ADVERTISEMENTS IN THE PRC-CONTROLLED PRESS. IN ANOTHER PRECEDENT-MAKING MOVE, TA KUNG PAO HAS APPROACHED THE CONGEN'S COMMERCIAL SECTION WITH A PROPOSAL TO RUN A SPECIAL ADVERTISING SUPPLEMENT FOR A US BUSINESS EQUIPMENT EXHIBITION IN APRIL. TA KUNG PAO POINTED OUT THE ADVANTAGES OF REACHING "ALL"SECTORS OF THE BUSINESS COMMUNITY.

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INFO USLO PEKING

AMEMBASSY KUALA LUMPUR
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COMMENTS: PEKING'S STEPPED-UP TRADE PROMOTION
IN HONG KONG IS DIRECTED AT BOTH THE LOCAL AND
FOREIGN MARKETS. ARGUABLY, THE PRC BELIEVES ITS
ACTIVITIES HERE HOLD THE BEST PROSPECT OF
INCREASING FOREIGN EXCHANGE EARNINGS QUICKLY.
IT WOULD APPEAR THAT SUCH EARNINGS ARE BADLY NEEDED
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DURING THE FIRST HALF OF THIS YEAR. DURING THIS
TIME, THE PRC IS SCHEDULED TO TAKE DELIVERY OF SOME
TWO MILLION TONS OF JAPANESE STEEL, 980,000 TONS
OF CHEMICALS FERTILIZER FROM JAPAN AND PERHAPS 2.5
MILLION TONS OF WHEAT.

AS A WHOLE, PRC EXPORTS ARE UNLIKELY TO SHOW
MUCH INCREASE THIS YEAR: ACTUAL DECLINES MAY OCCUR
DURING THE FIRST HALF. FOR THIS REASON,
THE PRC IS COMPELLED TO EXPLOIT TO THE FULLEST ITS
IMMEDIATE FOREIGN EXCHANGE EARNINGS OPPORTUNITIES IN
AND THROUGHOUT HONG KONG. LIMITED OFFICIAL USE

3. TACHING'S MESSAGE: BETTER MANAGEMENT

CHINA'S MAJOR INDUSTRIAL MODEL, TACHING, RECENTLY
ANNOUNCED EIGHT REQUIREMENTS FOR STRENGTHENING BASIC
LEVEL CONSTRUCTION. THEY INCLUDE SUCH STIPULATIONS
AS: INVOLVING THE PARTY, STUDYING MARX-LENIN-MAO
THOUGHT, STRENGTHENING ORGANIZATIONAL DISCIPLINE,
PUTTING POLITICIANS IN COMMAND AND BEING BOTH "RED
AND EXPERT". GENERALLY, THE REQUIREMENTS ARE
MANAGEMENT-ORIENTED AND ALSO NOTE THE IMPORTANT

ROLE OF THE PARTY AND IDEOLOGY IN PRODUCTION. SHORTLY AFTERWARDS, TACHING PUBLISHED ITS TEN MAJOR CONCRETE CONTRIBUTIONS TO THE STATE, A GLOWING LIST OF PRODUCTION ACCOMPLISHMENTS (ALL OF WHICH HAD BEEN CLAIMED BEFORE). THE IMPLICATIONS FOR THE READER NATURALLY IS THAT THESE ACHIEVEMENTS WERE MADE POSSIBLE BY FOLLOWING THE AFOREMENTIONED BASIC REQUIREMENTS (PEOPLE'S DAILY MAR 11, 1977 CNS TACHING MAR 13, 1977).

COMMENT: THE TACHING MESSAGE IS CLEARLY ONE OF BETTER MANAGEMENT AND ORGANIZATION, PRINCIPLES THAT CAN BE APPLIED UNIVERSALLY TO ANY TYPE OF LIMITED OFFICIAL USE

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INDUSTRIAL ENTERPRISES. ANOTHER POINT UNDERLINED IN THE TACHING EXPERIENCE IS THE CLOSE PARTY INVOLVEMENT IN MANAGERMENTS. UNCLASSIFIED

4. PRC IRON AND STEEL INDUSTRY TRENDS

TWO POSSIBLE INNOVATIONS IN CHINA'S TROUBLED IRON AND STEEL INDUSTRY WERE RECENTLY ANNOUNCED BY PEKING. ONE, GASEOUS IRON SMELTING, WOULD BE INTRODUCED PRIMARILY TO COUNTER COKING COAL SHORTAGES (A PRENNIAL PROBLEM COMPOUNDED BY THE KAILUAN LOSSES). ANOTHER NEW PROCESS, STILL IN THE EXPERIMENTAL STAGE IS THE CONVERSION OF OZYGEN TOP-BLOWN CONVERTER FURNACES TO BOTTOM-BLOWN-. THE LATTER ARE CLAIMED TO BE MORE EFFICIENT THAN THE TOP-BLOWN FURNACESWHICH CHINA HAS TRADITIONALLY USED. (SCIENTIFIC EXPERIMENT MAGAZINE, JANUARY 1977). THESE INNOVATIONS REFLECT CHINESE EFFORT TO ALLEVAITE PROBLEMS IN ITS STEEL SECTOR ARISING FROM COKE SHORTAGES AND THE RATHER LOW GRADE IRON ORE WHICH FREQUENTLY MUST BE USED IN PRC STEEL-MAKING. UNCLASSIFIED.

5. SMALL-SCALE ENTERPRISES-RAPID GROWTH AND CENTRAL PLANNING

LOCAL SMALL-SCALE ENTERPRISES RUN BY COMMUNES AND PRODUCTION BRIGADES PLAY A VITAL ROLE IN HELPING TO FINACNE CHINA'S RURAL MECHANIZATION, AND THE PACE OF THEIR DEVELOPMENT PROVIDES ONE MEASRUE OF THE OVER-ALL PROGRESS OF MECHINIZATION. A RECENT PEOPLE'S DAILY REPORT (MARCH 4) BY THE THEORETICAL GROUP OF THE COMMUNE ENTERPRISE BUREAU OF THE MINISTRY OF AGRICULTURE AND FORESTRY DISCLOSES THAT IN 1975 MORE THAN 800,000 SUCH ENTERPRISES HAD BEEN ESTABLISHED

IN 90 PERCENT OF THE COMMUNES AND 60 PERCENT OF
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THE BRIGADES IN CHINA. FOR COMPARISON, IN 1960
COMMUNE ENTERPRISES ALONE NUMBERED OVER 200,000 AND
ACCOUNTED FOR 10 PERCENT OF TOTAL INDUSTRIAL OUTPUT
VALUE (RED FLAG NO 8, 1961, P 20). THE NUMBERS
PROBABLY DECLINED
SOMEWHAT IN THE AFTERMATH OF THE
GREAT LEAP, KIANGSU'S COMMUNE AND BRIGADE
ENTERPRISES, FOR EXAMPLE, WERE ALMOST ELIMINATED
BEFORE THE CULTURAL REVOLUTION (NANCHANG RS, FEB 14,
1977). THEREAFTER RURAL SMALL-SCALE INDUSTRY BEGAN
TO RECOVER, BUT RECEIVED ITS MOST VIGOROUS BOOST AT
THE FIRST NATIONAL AGRICULTURAL CONFERENCE ON TACHAI
IN THE FALL OF 1975 WHEN THEN VP HUA KUO-FENG CALLED
FOR VIGOROUS DEVELOPMENT OF COMMUNE AND BRIGADE
ENTERPRISES BY LOCAL PARTY COMMITTEES.

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A MAJOR AIM AT PRESENT IS TO BRING THIS BURGEONING
SECTOR UNDER BETTER CONTROL WHILE STILL ENCOURAGING
IT TO EXPAND. ITS RAPID GROWTH IN THE LAST TWO
YEARS, WHICH HAS SEEN MANY PROVINCES DOUBLE THE
NUMBER OF RURAL ENTERPRISES, HAS UNDOUBTEDLY SHARPENED
THE PROBLEM OF RESOURCES ALLOCATION AND PLANNING.
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THE TWO PROVINCES, HUBEI AND INNER MONGOLIA, HAVE
ANNOUNCED PLANS TO DOUBLE THE OUTPUT VALUE OF COMMUNE
AND BRIGADE ENTERPRISES BY 1980, WHILE HUNAN PLANS
TO RAISE THE INCOME OF THESE ENTERPRISES TO 40
PERCENT OF TOTAL COMMUNE INCOME. A NUMBER OF
PROVINCES HAVE IDENTIFIED MECHANIZATION OR SMALL-
SCALE ENTERPRISE BUREAUS WHOSE TASKS IT PROBABLY
CONNECTED WITH CONTROL AND SUPERVISION. THE CENTRAL
GOVERNMENT HAS ALSO ANNOUNCED ITS INTENTION TO
BRING THE PRODUCTION SUPPLY, AND MARKETING OF
THESE ENTERPRISES WITHIN THE STATE PLAN, A STEP
THAT POINTS UP THE GROWING IMPORTANCE OF THIS
SECTOR'S OUTPUT FOR THE NATIONAL ECONOMY.
UNCLASSIFIED

6. ANHWEI'S SUPPORT-AGRICULTURE INDUSTRY MISSES PRODUCTION TARGETS

DESPITE HAVING A RELATIVELY GOOD AGRICULTURAL
YEAR IN 1976 ANHWEI PROVINCE EVIDENTLY FAILED TO
MEET PRODUCTION TARGETS IN A NUMBER OF SUPPORT-
AGRICULTURE CATEGORIES. ANHWEI'S 1976 OUTPUT OF
MEDIUM-SIZED TRACTORS (1,000 UNITS) HADN TRACTORS
(20,000 UNITS) AND DIESEL ENGINES (1.2 MILLION
HORSEPOWER) WAS CHARACTERIZED BY THE PROVINCIAL PARTY
COMMITTEE AS NOT MEETING THE REQUIREMENTS OF
AGRICULTURAL DEVELOPMENT (PEKING NCNA DOMESTIC
MAR 7, 1977). AT A JUNE 1976 MEETING, ANHWEI SET
ANNUAL PRODUCTION TARGETS, OF 4,500 LARGE AND MEDIUM
TRACTORS, 40,000 HAND TRACTORS, AND 1.72 MILLION
HORSEPOWER OF DIESEL ENGINES FOR THE 1976-80 PERIOD,

WHICH WOULD SUGGEST A SHORTFALL OF 50 PERCENT AND
30 PERCENT HAND TRACTORS AND DIESEL ENGINES
RESPECTIVELY. NEVERTHELESS, THE VERY LIMITED OUTPUT
IN ALL THREE CATEGORIES JUST SEVEN YEARS AGO IN
1969-19 MEDIUM TRACTORS, 302 HAND TRACTORS, AND
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54,000 HORSEPOWER OF DIESEL ENGINES- PROVIDES A
GRAPHIC CONTRAST. IT NOT ONLY ISSUSTRATES THE
EXTENSIVE AND RAPID CHANGE IN THIS SECTOR, BUT
ALSO CONVEYS SOME IMPRESSION OF THE IMPACT THAT
SUCH INDUSTRIAL SUPPORT IS UNDOBTEDLY HAVING ON
AGRICULTURE. UNCLASSIFIED.

7. RECENT REPORTS ON ECONOMIC TOPICS
HONG KONG 2586-NORTH KOREAN-SOVIET RELATIONS;
AID REQUESTS

HONG KONG 2945-SINO-NORTH KOREAN TRADE

HONG KONG A-41- RECENT HISTORY OF HUHEB RAIALWAYS BUREAU

#9,& (9,& 3022-CHINA HIGHLIGHTS.
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